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Animal Agriculture: Issues for the 106th Congress

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SUMMARY

A variety of animal agriculture issues has generated debate in the 106th Congress, including low livestock prices, particularly for hogs. Economic difficulties have revived questions such as the impacts of consolidation in the livestock industry, and the price effects of animal imports from Canada and Mexico.

On October 22, 1999, the President signed the FY2000 USDA appropriations bill (H.R. 1906; P.L. 106-78). It contains an $8.7 billion emergency farm relief package that would earmark at least $200 million for livestock producers, and require large meat packers to report prices they pay for cattle and hogs, among other provisions. Prior to this, the U.S. Department of Agriculture (USDA) already implemented provisions in the emergency supplemental appropriations bill (H.R. 1141; P.L. 106-31, signed May 21) that made available up to $145 million to assist pork producers, and another $73 million in payments to livestock producers generally for disaster losses.

Other legislative proposals potentially affecting livestock producers have been introduced. These include bills mandating that meat products be labeled with their country of origin and bills attempting to address concerns about concentration in the industry.

On the trade front, the Commerce Department in October 1999 concluded that Canadian cattle feeders were dumping live cattle. Subsequently, the U.S. International Trade Commission (ITC) ruled on November 9 that imports of Canadian cattle were not injuring U.S. cattle producers –therefore, no ITC antidumping order with duties was issued.

The President in July 1999 announced new, higher tariffs on lamb imports from New Zealand and Australia based on findings by the ITC that increased lamb meat imports "are a substantial cause of the threat of serious injury" to U.S. producers. Also, USDA announced on January 13, 2000, a 3-year, $100 million aid package for U.S. producers.

Continuing disputes with the European Union (EU) over its barriers to U.S. meat and poultry imports and chronic difficulties getting products into countries in the increasingly important Asian market also are at issue, as Congress considers the success of existing trade agreements and whether to enter into new ones. For example, the World Trade Organization gave the EU until May 13, 1999, to lift its ban on imports of meat products from animals treated with growth-promoting hormones. The EU did not lift the ban, and the U.S. retaliated by imposing, in late July 1999, 100% tariffs on $117 million worth of EU imports.

In another area, the Administration issued on March 9, 1999, a new "Unified National Strategy" for animal feeding operations (AFOs) aimed at improving compliance and strengthening existing regulations for controlling waste discharged from such operations. In August 1999, the Environmental Protection Agency followed up by unveiling a proposed guidance manual and permit examples for AFOs, inviting public comments for 60 days. It is aimed at providing information on which AFOs would need to apply for permits (likely 15,000 to 20,000 of the largest operations); how manure should be applied on land; and monitoring and reporting requirements, among other things.

Most Recent Developments

On January 13, 2000, USDA announced a 3-year, $100 million package of assistance aimed at improving the productivity and competitiveness of the U.S. lamb industry. This follows the July 1999 imposition by the President of new, higher tariffs on lamb imports to protect U.S. producers.

On October 22, 1999, the President signed the FY2000 USDA appropriations bill (H.R. 1906; P.L. 106-78). It contains an $8.7 billion emergency farm relief package that earmarks at least $200 million for livestock producers, and requires large meat packers to report prices paid and sales terms for cattle and hogs they purchase, among other provisions.

In October and November, several bills were introduced that were aimed at addressing some livestock producers' concerns about increasing concentration in agricultural industries, particularly among the companies that buy their animals. Two different bills (S. 1738, H.R. 3324) would prohibit packers from feeding or owning their own animals. Other bills would impose a moratorium on large agribusiness mergers (S. 1739, H.R. 3159), and would establish within the Department of Justice a position with responsibility for agricultural antitrust matters (S. 1984).

On the trade front, on October 13, 1999, the Commerce Department concluded that Canadian cattle feeders were dumping live cattle, at margins ranging from 3.86% to 15.69%. This action cleared the way for a final ruling on November 9 by the International Trade Commission (ITC) in which it ruled imports of Canadian cattle were not materially injuring, or threatening to materially injure, U.S. cattle producers. Therefore, no ITC antidumping order with duties was issued.

Background and Analysis

Importance of Animal Products

In 1998, U.S. farmers received $93 billion from the sale of their animal products, about 47% of the value of all agricultural products marketed, according to USDA. In virtually every state, one or more of the top five farm commodities (based on sales) was an animal product, such as milk, cattle/calves, hogs, poultry, or eggs.

These commodities contribute about three-quarters of the protein and one-third of the food energy to the average American’s diet. Of the $561 billion that U.S. consumers spent on all U.S. farm-produced foods in 1997 (the most recent year available), roughly half was for meat, poultry, eggs, and dairy products.

Recent Economic and Price Concerns

Livestock (i.e., cattle, hog, lamb) and poultry (i.e., broiler and turkey) producers entered 1999 with record supplies of red meat and poultry, contributing to depressed prices for livestock in general and hogs in particular. Low feed and other input costs have helped to offset some lost income. Red meat production increased less than 2.5% from 1998 to 1999, while poultry production increased over 5%. The increases pushed overall meat and poultry supplies to yet another all-time record of more than 81 billion pounds in 1999. Total meat and poultry supplies are expected by USDA to level off or decline slightly in 2000.

Hogs. The pork industry has been shaken both by historically low hog prices in 1998 and by a relatively rapid decline in the number of smaller-sized hog farms. Average 1998 live hog prices dropped to $35/cwt. (100 pounds), the lowest annual level since 1972 and, adjusted for inflation, the lowest of the century. Some reported prices dipped below $10 in mid-December. (Prices in 1996 and 1997 averaged above $50/cwt.) The University of Missouri estimates that U.S. hog farms lost $2.5 billion in equity in 1998. Other analysts have estimated even higher losses. For all of 1999, prices averaged above $33/cwt. and USDA has projected prices will increase to $37-40/cwt. in 2000.

Economists attributed the recent price problems to large increases in pork production. Producers had expanded in response to relatively higher prices paid for hogs in 1996 and 1997, to lower grain prices, and to predictions of continuing robust export growth. Hog prices also were depressed due to large supplies of beef and poultry competing for the consumer dollar and to the closure of several large packing plants in 1998. The increased hog production strained slaughter capacity and deterred packers from taking even more animals off the farm.

Meanwhile, hog production has been consolidating into fewer and larger operations. From 1993 to 1999, the number of U.S. farms with one or more hogs declined by over half, from 218,060 to 98,460 according to USDA. By the end of 1999, 7,125 (7.2% of all operations) accounted for nearly 70% of U.S. hog production. Newer, much larger, and highly capitalized facilities account for most of the recent expansion. In order to cover high fixed costs, these facilities tend to stay in the hog business longer, even when prices are low, than the relatively smaller-sized, and more diversified, farms of the past, which tended to more quickly enter or exit the hog business in response to price changes. The larger operations also tend to have contract supply relationships with processing plants, rather than selling in spot cash markets.

Cattle. The cattle industry has struggled with a longer-term erosion of market share to competing protein sources, especially poultry. Prices paid for "fed" (i.e., slaughter-ready) cattle in the Nebraska market averaged about $61/cwt. in 1998, down from $66 in 1997 and the lowest annualized price of the 1990s, according to USDA. Average prices for "feeder" cattle (animals bred and readied for placement in feedlots) in Oklahoma City were about $72 in 1998. Prices had reached $76 in 1997, after a long slide between 1993 and 1996, from $86 to $61. USDA expects beef production to decline by 2000, leading to price improvements. Average prices increased to about $65 in 1999 for Nebraska fed cattle and almost $76 for Oklahoma City feeder cattle. The respective prices in 2000 are expected to range $67-72 and $78-84.

Poultry. Broiler prices averaged 63¢/lb. in 1998, or more than 4¢ higher than 1997, helped by a relatively modest 2% growth in production. Prices might have been higher if the key Russian market had not collapsed after devaluation of the ruble in August 1998. For 1999, average prices dropped by 5¢ due to 6.5% growth in production, and to sluggish exports, USDA said. Turkey prices averaged about 62¢/lb. in 1998, from almost 65¢ in 1997, but recovered above 69¢ in 1999. Large meat supplies have helped to dampen poultry prices.

Government Response

USDA launched a number of initiatives –and Members of Congress have proposed various bills– to assist the livestock industry, particularly pork. Both the House and Senate Agriculture Committees have held hearings where these issues have been reviewed.

Hog Industry Assistance. USDA has, among other things, provided $50 million for direct payments of $5 per head to smaller-sized producers, eased Farm Service Agency (FSA) credit terms, accelerated the Animal and Plant Health Inspection Service (APHIS) pseudorabies eradication program with an infusion of $80 million, purchased, since February 1998, $165 million worth of pork products for distribution to domestic feeding programs (including $95 million in so-called "bonus" buys over and above planned purchases), and earmarked pork (along with other meats) for several export and food aid programs.

On May 21, 1999, the President signed an emergency supplemental appropriations bill (H.R. 1141; P.L. 106-31) that includes a Senate provision making available up to an additional $145 million specifically to assist pork producers. The measure also permits USDA to exceed the statutory limitation of 25% of total available money that it can spend on any single commodity under the so-called Section 32 program (used to purchase surplus farm products), theoretically enabling the Department to spend more funds on hog producers.

In August 1999, USDA disbursed $100 million or more for additional direct payments to hog producers. Those marketing no more than 2,500 hogs during the last 6 months of 1998 (about 96% of all operations) were eligible for the payments, which could not exceed $5,000 per recipient. Payment rates were $10 per head (with the previous $5 per head payments counting toward the $10 limit).

Other Livestock Assistance. The emergency supplemental bill included an additional $73 million to assist livestock producers generally who have experienced disaster-related losses. On June 29, 1999, the Secretary announced that most of this money was being made available, through county FSA offices, to supplement the $200 million in livestock disaster assistance that was provided in the FY1999 omnibus appropriations bill. The combined $270 million will enable producers in 31 states to be compensated for a total of 30% of the value of their grazing losses.

Because of continuing low prices and disaster problems in the crop as well as livestock sectors in 1999, another emergency farm relief package, totaling $8.7 billion, was included in the regular FY2000 USDA appropriations bill (H.R. 1906; P.L. 106-78) signed by the President on October 22. The legislation (in Section 805) earmarks at least $200 million for livestock producers, among other provisions. This funding was supplemented with $10 million in livestock assistance in P.L. 106-113 (November 29, 1999). (See CRS Report RS20416, *Emergency Farm Assistance in FY2000 Appropriations Acts*.)

Current law gives USDA the discretion to determine whether a commodity is insurable under the federal crop insurance program, but livestock is specifically excluded. The Administration and several Members of Congress have proposed offering, on a pilot basis, revenue-based insurance products for livestock. (Se CRS Issue Brief 10037, *Federal Crop Insurance: Reform Issues in the 106th Congress*.)

Industry Structure and Consolidation

Price problems on the farm have revived interest in the changing structure and business methods of the livestock industry including consolidation of production and processing into fewer and larger operations, more vertical coordination (i.e., ownership or increased control of more than one phase of production and marketing by a single firm), and the gradual shift from mainly open cash markets to private contracts or other marketing agreements between buyers and sellers. At issue are the impacts –positive and negative– on traditional producers, rural economies, consumer choices and prices, and the environment –and the role, if any, that government should play.

As noted, hog farming has consolidated rapidly. At the packer level, the four largest firms' share of hog slaughter reached 54% in 1997, compared with 32% in 1980. Although less than 10% of all hogs involved entire or partial packer ownership in 1997, 64% of all hogs were marketed through some form of forward sales arrangement between producers and packers. The poultry industry has been almost entirely vertically integrated for years, and the pork industry is becoming more so. In the cattle sector, the four largest beef packers accounted for 80% of all cattle slaughtered in 1997, compared with 36% in 1980. However, structural change in the beef industry has not been as dramatic recently as it has been for the hog industry.

Many producers believe increasing concentration and other changes have resulted in a less open market environment and contributed to the lower prices they have been receiving. USDA and other analysts generally believe that other factors, notably imbalances in supply and demand, are much more consequential.

Economists explain that structural changes are occurring as firms become larger in order to capture lower per-unit costs when operating at or near full capacity. They note that vertical coordination and the use of advance marketing arrangements are simply a reflection of today's agricultural markets, which are shifting from the production of a few homogenous commodities without a particular market in mind to the creation of a wider variety of specific, consistently high-quality consumer products.

Government Response

Government-sponsored studies have been inconclusive on the relationship between agribusiness consolidation and farm prices. One, *Concentration in Agriculture: A Report of the USDA Advisory Committee* (June 1996) confirmed widespread producer distrust of pricing and procurement, especially by packers. Among its recommendations were improved market data collection (to reflect modern marketing practices); better access to the data by all segments of the industry; and more vigorous enforcement of existing antitrust laws.

USDA has since undertaken a number of actions intended to address concentration and to promote competition, including enhanced reporting of livestock prices and other marketing data, expanded investigations of procurement and pricing practices in the fed cattle, hog, and lamb sectors, and of poultry companies' contracts with growers, and an overhaul of the Grain Inspection, Packers and Stockyards Administration (GIPSA), to strengthen its ability to investigate and prosecute anti-competitive practices under the Packers and Stockyards Act (PSA).

USDA also asked Congress for legislation: giving it authority over live poultry dealers regarding violations of the PSA; amending the Agricultural Fair Practices Act so that producers have more bargaining power *vis a vis* meat and poultry companies; and providing the Secretary with the power to require livestock price reporting (see below).

On March 31, 1999, a White House (National Economic Council) task force issued a preliminary report on hog industry structure and practices. It concluded that although pork packer concentration has increased, it is still "considerably lower" than in cattle slaughter and "lower than levels that antitrust enforcement agencies ordinarily regard as indicative of a highly concentrated industry." Nonetheless, the report did state that small producers have been disadvantaged by recent market developments and that steps should be taken to help them survive and compete.

In Congress, the Senate Agriculture Committee held hearings on concentration in agriculture, including the livestock industry, on January 26 and July 27, 1999. The House Agriculture Committee held a hearing on February 11. On March 23, 1999, eleven Senators from farm states met with Attorney General Janet Reno to discuss the issue, and she responded by pledging to take a closer look at agricultural concentration. A high-level Justice Department official traveled in mid-April and again in early September 1999, to the Midwest to gather information on the issue, accompanied by USDA officials and several Senators. Additional hearings on agricultural concentration are expected in 2000, and a variety of bills have been introduced (see "LEGISLATION" section).

Mandatory Price Reporting

Packers and processors have not been required to report the prices they pay for the animals they buy from producers, although USDA does collect and report this information under an extensive voluntary system. However, structural change has led to more animals being sold under private marketing arrangements, where prices are not publicly disclosed, some agricultural producers contend, adding that it has made it more difficult to get accurate market information. They called for mandatory price reporting legislation covering packers and perhaps others who process and market meat. Opponents, who have included some meat packers, farmers, and ranchers, argued that mandatory reporting would be costly for government and industry, raise privacy concerns, and not cure low livestock prices.

Mandatory price reporting for large packers was incorporated by conferees into the FY2000 USDA appropriation law (P.L. 106-78). The conference amendment is based on a mandatory price reporting bill the Senate Agriculture Committee had marked up and approved on July 29, 1999. The markup had culminated a long period of intensive negotiations involving meat packing companies and livestock producers to design a comprehensive price reporting law acceptable to both segments of the industry.

Initially, the Congress provided no funding for USDA to implement the plan, which applies to cattle plants that slaughter at least 125,000 head annually, and hog plants that slaughter at least 100,000 head annually. Plants must report to USDA several times per day of operation all prices and terms of sale. (Sponsors estimate this would impose requirements on only 10% of cattle and hog plants but still capture 94% of market transactions.) Failure to comply will lead to civil penalties. USDA in turn must publish frequent, detailed reports on these transactions. (See CRS Report RS20079, *Livestock Price Reporting Issues*.)

Shortly before recessing for the year, Congress approved expenditure of up to $4.7 million (P.L. 106-113) for livestock price reporting. The legislation calls for completion of draft regulations by January 24, 2000, then public comment and a final rule by April 24, 2000, with implementation in the beginning of July.

Trade

Trade has become important to the livestock and poultry industries –whose exports had grown more rapidly in recent years than virtually any other major agricultural category. Between FY1993 and FY1996, the total value of livestock and poultry product exports increased by 50%, to a record of about $10.8 billion. Widespread economic problems in Asia since 1997, and deteriorating conditions in Russia, both major markets for U.S. animal products, contributed to a downturn in export value since then, to $10.3 billion in FY1998, and $9.3 billion in 1999. The forecast for FY2000 is for exports to increase to $9.9 billion.

Still, the U.S. dominates world poultry markets with 28% and 29% of world production, and 44% and 41% of world exports respectively in 1998 and 1999. The U.S. is the leading producer of beef and veal with 25% of production and the second leading exporter at approximately 20%. The U.S. is the third leading pork producer at 11% and the second leading exporter at 20%.

The importance of overseas markets has compelled animal producers to pay close attention to U.S. trade policy. For example, their support of future trade agreements will be influenced by a variety of market access issues that have arisen under existing agreements. Some producers contend they have been disadvantaged by the North American Free Trade Agreement (NAFTA) with Mexico and Canada or by the multilateral World Trade Organization (WTO) Uruguay Round (UR) accords. They suggest other countries do not always honor commitments made under these agreements. Complaints within both NAFTA and the WTO often relate to sanitary and phytosanitary (SPS) measures, which countries can use –but only if scientifically defensible– to protect the health and well-being of their citizens, animals, and plants. That is, countries set up protectionist policies under the guise of SPS measures.

Disputes With Canada and Mexico

Trade in live animals is primarily between the U.S. and both Canada and Mexico for cattle, and between the U.S. and Canada for hogs. Many U.S. producers have long complained that while Canadian cattle and hog access to the U.S. market is relatively open, market access for U.S. cattle and hogs has been impeded by overly stringent Canadian animal health requirements. Mexico also has been a target of complaints over imports of cattle.

Cattle. During the 1990s, Canadian and Mexican cattle imports have averaged, respectively, about 1.3 million and 1 million head annually. U.S. exports averaged 60,000 head annually to Canada and 140,000 to Mexico during the period. In a preliminary response to a 1998 complaint filed by the Ranchers-Cattlemen Action Legal Foundation (R-CALF), the U.S. International Trade Commission (ITC) on January 19, 1999, found a reasonable indication that U.S. cattlemen were threatened or injured economically because Canadian cattle were being imported at less than fair market value.

After the ITC finding, the next step in the process was for the Department of Commerce (DOC) to conduct investigations regarding countervailing duties and antidumping. DOC concluded that Canadian cattle feeders were dumping live cattle, at margins ranging from 3.86% to 15.69% (although the average for others is 5.63%). The DOC action led to the next step in the process, which was a final ruling from the ITC on whether the imports were economically harming U.S. producers and thus subject to an antidumping order. On November 9, 1999, the ITC ruled that despite the margins, imports of Canadian cattle were in fact not materially injuring, or threatening to materially injure, U.S. cattle producers –therefore, no ITC antidumping order with duties will be issued.

Hogs. Almost all live hog imports originate in Canada and reached a record 4.1 million head in 1998, after rising continuously from 674 million head in 1992. Since then, imports have declined slightly from 3.45 million in the period January-October 1998 to 3.42 million in January-October 1999. Virtually no hogs had been moving northward from the United States. USDA and other analysts cited the strong U.S. dollar relative to the Canadian dollar, similar hog supply and price problems in Canada, and a labor dispute at a large Canadian packing plant, as reasons for the large volume of imports. These imports accounted for about 4% of U.S. pork production and were one –but not a major– contributor to low hog prices, according to USDA.

Recently, the DOC announced it would end, on January 1, 2000, a countervailing duty order, first imposed 14 years ago, on live Canadian hog imports. The reason given was that Canada no longer had subsidies that necessitated the order. In fact, in recent years, the DOC duty on live hogs has been set at zero. This action raised concerns in the U.S. hog industry, which contends the mere existence of the order had forced Canada to curtail support for its industry.

On a different but related front, U.S. and Canadian officials have been working since late 1998, to implement an agreement on a variety of agricultural issues that included Canadian commitments to drop a costly requirement that U.S. hogs be quarantined for pseudorabies for 30 days prior to slaughter, and to work on easing other animal health restrictions. On April 20, 1999, the two countries announced the formation of a Consultative Committee on Agriculture to improve cooperation on agricultural trade issues. On December 13, 1999, the U.S. and Canadian Governments released a joint progress report on the first year under the agreement. Secretary Glickman and Canadian Minister of Agriculture Vanclief cited, as progress, among other things, new Canadian import regulations allowing U.S. slaughter hogs from eligible states to enter Canada under simplified rules; and an increase in U.S. feeder cattle exports to Canada under the Northwest Cattle Project from 1,000 head in 1997/1998 to 51,000 head in 1998/1999 and more than 90,000 head during the first 8 weeks of 1999/2000.

Country-of-Origin Labeling

Federal law requires most imports, including many food items, to bear labels informing the "ultimate purchaser" of the country of origin. The U.S. Customs Service, which administers and enforces this requirement, generally defines the "ultimate purchaser" as the last U.S. person who will receive the article in the form in which it was imported. So, if articles arrive at the U.S. border in retail-ready packages –including food products, e.g., a can of Danish ham, a slab of Dutch cheese, or a box of English candy– each must carry such a mark. However, if the article is destined for a U.S. processor or manufacturer where it will undergo "substantial transformation" (as determined by Customs), then that processor or manufacturer is considered the ultimate purchaser. Bills (H.R. 222, H.R. 1144, S. 242, S. 251) have been introduced into Congress that would impose expanded country-of-origin labeling requirements on meat products at the retail level (See "LEGISLATION" section at the end of this issue brief for descriptions of the bills.).

Expanded labeling requirements continue to attract attention for a number of reasons. One is that they are viewed (by some advocates) as a way to help U.S. producers dealing with low farm prices. Also, some perceive that food products from certain countries might pose greater risks than those from the United States. Proponents contend additional country labeling requirements will enable consumers to know the source of retail food offerings and include that knowledge in selecting their purchases.

Opponents counter that country-of-origin labeling bears no relation to food safety and would not raise U.S. commodity prices. They argue it will impose excessive and costly regulatory burdens on retailers and others in the marketing system, increase consumer prices, be difficult to enforce, and –by imposing new non-tariff trade barriers– undermine ongoing U.S. efforts to reduce other countries' trade barriers and expand international markets for U.S. products. Hearings on country labeling bills were held by a House Agriculture subcommittee on April 28, and by the Senate Agriculture Committee on May 26, 1999. Provisions to impose country labeling requirements for meats and produce were included in a wide-ranging Democrat farm relief amendment (S.Amdt. 1514) that was defeated by the Senate on August 4, 1999. (See CRS Report 97-508, *Country-of-Origin Labeling for Foods: Current Law and Proposed Changes*.)

U.S.-EU Disputes

Hormones. WTO dispute settlement panels have ruled that an EU ban, in place since 1989, on imports of meat derived from animals treated with growth hormones, is inconsistent with the Uruguay Round SPS Agreement. The WTO panels agreed with the U.S. argument that the ban lacks scientific justification; left open the option for the EU to conduct a risk assessment of hormone-treated meat; and gave the EU until May 13, 1999, to bring its hormone measure into compliance with SPS rules.

The EU did not meet this deadline. Citing studies that, it contends, raise human health questions about the use of such hormones, the EU said it intends to keep the ban while it continues its risk assessment. In response, the U.S. stated in May 1999 that it would seek to impose economic sanctions (likely in the form of 100% import tariffs) on EU products valued at $202 million. A WTO panel agreed that sanctions are warranted, but in July set the value subject to sanctions at $116.8 million. The U.S., in turn, announced the list of agricultural goods on which the 100% tariffs will be imposed, effective July 29, 1999. While the U.S. and EU continue to discuss the issue, no resolution is at hand that would result in a resumption of EU imports of hormone treated meat. (See CRS Report RS20142, *The European Union's Ban on Hormone-Treated Meat*.)

Veterinary Equivalency. On July 26, 1999, after more than 6 years of negotiations, the U.S. and the EU finalized an agreement and process for determining that each side has equivalent safety and sanitary standards for animal products. Consensus on the text of an agreement initially was reached in April 1997, covering more than 40 types of animal products, including live animals, meats such as beef and pork, dairy and egg products, seafood, pet foods, and byproducts such as fats and hides. The final agreement is expected to preserve two-way trade in various animal products valued at about $3 billion annually. EU-U.S. disagreement over so-called regionalization policies for animal health had delayed final implementation of the April 1997 agreement, as had other disputes with the EU over trade in certain animal products (including the beef hormone issue). (See CRS Report RS20242, *U.S.-European Agricultural Trade: The Veterinary Equivalency Agreement*.)

Lamb

Acting on a Section 201 petition filed by the American Sheep Industry Association (ASI) and others, the ITC on February 9, 1999, found that increased lamb meat imports "are a substantial cause of the threat of serious injury to the U.S. lamb meat industry." Subsequently, on July 7, 1999, President Clinton announced an import relief package for the U.S. industry.

Three years of tariff-rate quotas on lamb meat imports began on July 22, 1999, applying primarily to New Zealand and Australia, the primary sources (Mexico, Canada, Israel, and other minor exporters to the U.S. are specifically exempted from the quota). During the first year, the total quota is set at 31,851 metric tons (78 million tons, carcass weight) in the first year, which is equal to 1998 lamb meat imports. Tariffs of 40% *ad valorem* will be imposed on all imports above the quota. During the second and third years, the total quota increases by 857 metric tons per year. The above-quota tariff declines to 32% *ad valorem* in the second year and to 24% in the third year. Moreover, duties are being increased for imports within the quotas, to 9%, 6%, and 3% *ad valorem*, in the first, second, and third years, respectively. The package also includes a $100 million, 3-year assistance initiative for the domestic lamb industry to help growers improve productivity and expand their sales of U.S. lamb.

New Zealand filed a complaint with the WTO on July 16, 1999, and Australia followed on July 23,1999. The WTO's Dispute Settlement Board met November 19, 1999, and established a panel to examine the dispute.

On January 13, 2000, USDA announced a 3-year, $100 million aid package aimed at improving the competitiveness of the U.S. lamb industry. It includes $30 million in direct payments and $30 million in loans to fund productivity improvements; $15 million for the eradication of the sheep disease scrapie; up to $5 million annually in Section 32 purchases of lamb products, and $5 million for various market promotion activities.

Food Safety and Animal Health

Meat and Poultry Inspection

Most meat and poultry must be inspected by USDA's Food Safety and Inspection Service (FSIS) for safety, wholesomeness, and proper labeling. The Food and Drug Administration (FDA) is responsible for ensuring the safety of all other foods, including seafood. In recent years, Congress has maintained close oversight over the efforts of FSIS and the meat and poultry industry to address the issue of microbiological contamination, which has been responsible for outbreaks of severe and sometimes fatal food borne illnesses. Although most consumer advocates, the meat and poultry industries, scientists, and USDA officials state that recent reforms are a step in the right direction, the issue for the Congress is how to maintain progress and whether further improvements in meat and poultry safety through regulatory and/or legislative changes are needed.

In July 1996, USDA began to implement a new system of inspection in slaughtering and processing plants called HACCP (for Hazard Analysis and Critical Control Point). HACCP is intended to prevent meat contamination by microbial pathogens at points along the manufacturing chain where it is most likely to occur. Plants with 500 or more employees (which account for 75% of all U.S. slaughter production and 45% of all processed product output) have been required to have a HACCP plan in place since January 26, 1998. Plants with between 10 and 500 employees were required to be operating under a HACCP plan as of January 25, 1999. Plants with fewer than 10 employees were required to have a plan in place by January 2000. Implementation of HACCP has not quelled congressional interest in additional food safety reforms, however.

In the 106th Congress, measures have been introduced to (1) give USDA the authority to recall suspected tainted meats (currently USDA asks the packer to announce a recall), and to levy civil penalties against chronically problematic packing operations (S. 48, H.R. 983), (2) require country-of-origin labeling on retail meats (S. 242, S. 251, H.R. 1144), (3) prohibit imported meats from carrying the USDA quality grade label (S. 241, S. 788, H.R. 1698), (4) permit interstate sales of meat and poultry that have been inspected under state programs (S. 1988), and (5) consolidate all federal food safety activities under a new Food Safety Administration (S. 624, H.R. 2345). Other issues pertaining to meat and poultry inspection concern USDA's publication in the *Federal Register* on December 23, 1999, of a final rule on the use of irradiation to improve the safety of meat and poultry products, and oversight to ensure that bovine spongiform encephalopathy ("mad cow disease"), which has decimated Great Britain's beef industry and raised public health questions, does not occur in the United States. (See CRS Issue Brief IB10037, *Meat and Poultry Inspection Issues*.)

Antibiotics in Animal Feed

The FDA, which regulates animal drugs, wants to propose a new framework for evaluating, approving, and monitoring the use of antibiotics by producers to promote growth and to control diseases in food-producing animals. Regulators, some scientists, and food safety advocates raise concerns that the current practice of adding antibiotics to animal feed may encourage emergent strains of bacteria in humans that are resistant to antibiotic treatment. There are proposals requiring manufacturers of all new animal drugs intended for use in food-producing animals to provide information that will enable the FDA to evaluate impacts on human health. A coalition of consumer advocacy organizations is calling for more stringent rules, including a ban –already in place in Europe– on the use of any human antibiotics for promoting growth in animals. Animal and drug industry officials object to more regulations. They counter that it has not been proven that antibiotics, when properly administered to animals, endanger human health, and that the proposed changes will raise significantly the costs of both animal production and new drug development. (See also GAO Report RCED-99-74, *Food Safety: The Agricultural Use of Antibiotics and Its Implications for Human Health*.)

Animal and Plant Health Inspection Service

Consolidated Statutes. The Animal and Plant Health Inspection Service (APHIS) is charged with protecting U.S. agriculture from foreign pests and diseases through border inspections, domestic surveillance and eradication programs, and related activities. APHIS also facilitates U.S. agricultural exports by negotiating with foreign nations to reduce sanitary and phytosanitary trade barriers. The agency wants to modernize, simplify, and combine 28 separate animal and plant health and quarantine laws into two, an Animal Health Protection Act and a Plant Protection Act.

"Consolidated statutes" legislation was first sent to Congress in 1990, but successive reviews have not led to its passage. Among other issues, some animal agriculture groups are wary of the potential impacts of several substantive changes APHIS is seeking through the proposal, such as authority to cover additional animal diseases, and modified standards for humane treatment of animals in transit. APHIS has been working to resolve these and other issues and may submit another Animal Health Protection Act to the 106th Congress.

"Revitalizing" APHIS. One priority of the Animal Agriculture Coalition (AAC), a loosely allied group of livestock and poultry trade associations, animal health, and science organizations, is to ensure APHIS has the resources and leadership needed to address critical animal issues likely to emerge in the coming years. These issues include responding more effectively to national animal health emergencies, protecting against biological threats to the food supply, dealing proactively with animal welfare concerns, and playing more prominent roles in international trade and in food safety.

Animal Well-Being

Animal protection activists have sought modification of many production practices considered acceptable and necessary to animal agriculture, and bills periodically are introduced to this end. One such proposal (H.R. 443, S. 515) would make it unlawful to market non-ambulatory livestock unless they are killed humanely. Activists believe these so-called "downed animals" are handled roughly or otherwise mistreated. Opponents of the legislation counter that the industry has responded aggressively through education and market disincentives to ensure that severely disabled animals are not accepted at stockyards and auction barns.

Water Quality Issues

Animal production practices have come under more scrutiny in recent years as policymakers have considered their impacts on the environment, both on and off the farm. Industry leaders acknowledge their role in protecting the environment, but seek assurances that any policy changes will be based on sound scientific evidence and emphasize flexible, site-specific solutions over (in their view) excessive, costly, or inflexible regulations.

In particular, animal feeding operations (AFOs) –cattle feedlots, swine production operations, and poultry houses –along with high-volume slaughter plants, are of major concern. These sites –notably large AFOs that house thousands to tens of thousands of animals– generate a large volume of animal waste which, if not handled properly, can pollute surface and ground waters and threaten public health. Such concerns were widely publicized in the wake of several recent fish kills in East Coast estuaries (see CRS Report 97-872, *Pfisteria: Natural Resource and Human Health Concerns*).

The Clean Water Act (CWA) is the main federal law governing water pollution in streams, lakes, and estuaries. The Act was last amended in 1987, and periodic attempts to reauthorize CWA programs (which have not been reauthorized since 1990 but continue to be funded by annual appropriations) have not succeeded. Meanwhile, in February 1998, the Administration released a multi-agency Clean Water Action Plan intended to build on past CWA successes and to address remaining water quality challenges. One of these is minimizing the health and environmental impacts of AFOs.

Existing Environmental Protection Agency (EPA) regulations, issued in the 1970s, require CWA discharge permits for the largest AFOs (about 6,600 out of 450,000 total facilities nationwide). EPA acknowledged in a March 1998 report that compliance with and enforcement of these permit rules are poor and that the regulations themselves are outdated.

In March 1999, the Administration issued a new "Unified National Strategy" for AFOs, prepared jointly by EPA and USDA, that contains a number of steps to improve compliance and strengthen existing regulations, obtain better information on water quality related to AFOs, and coordinate federal and state activities. In August 1999, EPA followed up by unveiling a proposed guidance manual and permit examples for AFOs, inviting public comments for 60 days. It is aimed at providing information on which AFOS would need to apply for permits (likely 15,000 to 20,000 of the largest operations), how manure should be applied on land, and monitoring and reporting requirements, among other things.

Issues that Congress might be asked to address include impacts and costs imposed on agriculture, how the anticipated combination of regulatory and incentive-based measures will help to minimize water pollution from confinement facilities and land applications of manure, and whether legislation is needed to define national rules and policies on animal waste. The first major bill (H.R. 684) in this Congress on these issues was offered in February 1999. (See CRS Report 98-946, *Clean Water Act Issues in the 106th Congress*, CRS Report 98-451, *Animal Waste Management and the Environment: Background for Current Issues,* and CRS Issue Brief IB10001, *Clean Water Act Reauthorization*.)

LEGISLATION

Economic Assistance/General

P.L. 106-31/H.R. 1141 (Young)/S. 544 (Stevens)

The Emergency Supplemental Appropriations Act for Fiscal Year 1999 includes an amendment originating in the Senate that makes available an additional $145 million for USDA's Section 32 program; although not explicitly stated in the legislative language, the purpose of the funds is to assist hog producers. Separate provisions in the bill provide a total of $73 million for livestock producers for losses caused by natural disasters, among other aid for production agriculture. S. 544 reported March 4 as an original measure by the Committee on Appropriations; passed full Senate March 23. H.R. 1141 reported March 17 as an original measure by the Committee on Appropriations; passed the full House March 24, 1999. Cleared by conferees May 13; conference agreement passed by full House and Senate on May 18 and 20, 1999, respectively. Signed into law May 21, 1999.

P.L. 106-78/H.R. 1906 (Skeen)

Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2000. Title VIII of the measure, an $8.7 billion emergency assistance package for the farm sector, earmarks at least $200 million for livestock producers to compensate them for 1999 losses, and also requires large meat packers to report prices paid and terms of sale for cattle and hogs they acquire, among other provisions. Reported as an original measure by the House Committee on Appropriations on May 24, 1999 (H. Rept. 106-157), and passed by the full House on June 8, 1999, without the emergency relief package. Reported as an original measure (S. 1233) by the Senate Committee on Appropriations on June 17, 1999 (S. Rept. 106-80), and passed (as H.R. 1906) by the full Senate on August 4, 1999, including a $7.4 billion relief package. Conference agreement (H. Rept. 106-354), including Title VIII as described above, reported September 30, passed by the House October 1 and by the Senate October 13, 1999. Signed into law October 22, 1999. (See also S. 675.)

Mandatory Price Reporting

S. 675 (Daschle)

Agriculture Market Transparency Act of 1999. Require the largest packers to report the prices, volumes, and terms of sale for transactions covering a variety of animals and their products. Introduced March 19, 1999; referred to the Agriculture Committee. Hearing held May 26, 1999. Committee approved a different, unnumbered bill on July 29, 1999. A separate price reporting program was incorporated by conferees into H.R. 1906 (see above).

Industry Structure and Concentration

S. 1738 (Johnson)

Amend the Packers and Stockyards Act, 1921, to make it unlawful for a packer to own, feed, or control livestock intended for slaughter. Introduced on October 15, 1999; referred to the Agriculture Committee.

H. R. 3324 (Minge)

Amend the Packers and Stockyards Act, 1921, to make it unlawful for packers to own, feed, or control swine intended for slaughter. Introduced November 10, 1999; referred to the Agriculture Committee.

S. 1739 (Wellstone), **H.R. 3159 (Pomeroy)**

Would have imposed a moratorium on mergers and acquisitions by large agribusiness firms (generally, those with annual net sales or assets of more than $100 million) for up to 18 months. S. 1739 was introduced October 15, 1999, and ultimately offered as an amendment to the Bankruptcy Reform Act of 1999 (S. 625), but was defeated 27-71. A similar bill (H.R. 3159) was offered in the House by Representative Pomeroy on October 27, 1999, and referred to the Agriculture Committee and the Judiciary Committee.

S. 1984 (Harkin)

Establish within the Antitrust Division of the DOJ, a position with responsibility for agricultural antitrust matters. Introduced November 19, 1999; referred to the Judiciary Committee.

Country-of-Origin Labeling/Imports

H.R. 222 (Chenoweth)

Imported Meat Labeling Act of 1999. Amend the Federal Meat Inspection Act to require that imported meat, and meat food products containing imported meat, bear a label identifying the country of origin. Introduced January 6, 1999; referred to Agriculture Committee. Executive comment requested from USDA on February 17, 1999.

H.R. 1144 (Chenoweth)

The Country-of-Origin Meat Labeling Act of 1999 among other things would spell out distinctions between "domestic" and "imported" livestock and meat, and set forth specific label requirements to ensure that the "ultimate purchaser" is informed of the country where the animal and/or meat originated. Introduced March 17, 1999; referred to Committee on Agriculture. Hearing held April 28, 1999, by Subcommittee on Livestock and Horticulture.

S. 241 (Johnson), S. 788 (Burns), H.R. 1698 (Hill)

The Truth in Quality Grading Act of 1999 (S. 241) would prohibit the use of a USDA quality grade label on beef and lamb imports. The USDA Grade Recission Act (S. 788; H.R. 1698) would prohibit the grades on imported meat and meat food products. S. 241 introduced January 19, 1999; S. 788 introduced April 13, 1999; both bills referred to Senate Committee on Agriculture, which held a hearing on meat labeling issues on May 26, 1999. H.R. 1698 introduced May 5, 1999; referred to House Committee on Agriculture, which had held a hearing on country labeling issues on April 28, 1999.

S. 242 (Johnson), S. 251 (Burns)

The bills would require that imported beef, lamb, and/or meat food products bear a label identifying the country of origin. Both bills introduced January 19, 1999; referred to Committee on Agriculture. Hearing held May 26, 1999. A requirement modeled after the Johnson bill was included in a wide-ranging Democrat farm relief amendment (S.Amdt. 1514) to the USDA FY2000 appropriation bill (S. 1233) that was defeated by the Senate on August 4, 1999.

Food Safety

S. 48 (Harkin), H.R. 983 (Baldacci)

The Safe and Fair Enforcement and Recall for Meat and Poultry Act of 1999. Amends the Federal Meat Inspection Act and the Poultry Products Inspection Act to give the Secretary authority to make mandatory recalls of suspected contaminated meat and poultry products and to assess civil penalties against companies in violation of food safety standards, among other provisions. Introduced 19 January 1999; referred to Senate Agriculture Committee. Companion measure introduced in the House 4 March 1999; referred to House Agriculture Committee. Executive comment on the bill was requested from USDA on March 15, 1999.

S. 1988 (Daschle)

Amends the Federal Meat Inspection Act and the Poultry Products Inspection Act to permit meat and poultry inspected under state programs to be marketed in interstate commerce if the state has entered into a cooperative agreement with USDA to enforce federal meat and poultry inspection requirements. Introduced 19 November 1999; referred to Senate Agriculture Committee.

S. 624 (Durbin), H.R. 2345 (DeLauro)

The Safe Food Act of 1999. To consolidate in a single independent agency in the executive branch the responsibilities regarding food safety, labeling, and inspection currently divided among several Federal agencies. Both bills introduced on June 24, 1999. S. 624 referred to Governmental Affairs Committee. H.R. 2345 referred to the Commerce Committee and the Agriculture Committee.

Animal Well-Being

H.R. 443 (Ackerman), S. 515 (Akaka)

The Downed Animal Protection Act would amend the Packers and Stockyards Act of 1921 to make it illegal to market non-ambulatory livestock unless they are humanely killed. H.R. 443 introduced February 2, 1999; referred to House Committee on Agriculture; S. 515 introduced March 3, 1999; referred to Senate Committee on Agriculture.

Environment and Conservation

H.R. 684 (George Miller)

The Farm Sustainability and Animal Feedlot Enforcement Act would institute new EPA requirements aimed at controlling the discharge of pollutants from concentrated animal feeding operations. Introduced February 10, 1999; referred to Committee on Transportation and Infrastructure.